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April 20, 2015

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: Comments on Proposed Rule: Risk-Based Capital (RIN 3133-AD77)

Dear Mr. Poliquin,

Thank you for the opportunity to comment on the NCUA's recently revised Proposed Risk-Based Capital Rule. First, we would like to thank the NCUA for amending the original rule with many of the suggestions made by credit unions and other industry participants. Sound is in favor of implementing a risk-based capital structure for credit unions. We feel that the approach should quantify the risks associated with each type of an institution's assets and produce a risk-adjusted ratio. We feel that the rule has been improved; however, we feel that additional improvements are needed so that safety and soundness can be maintained without disrupting our ability to serve our members. The following comments and concerns represent our feedback regarding the newly revised rule.

Risk Weights - In general, we are pleased with the reduction in risk weights for Cash & Deposits and Investments. We have concern over the risk weights for 1st Lien Residential Real Estate Loans and Junior Real Estate Loans. Concentration risk appears to be the basis for using a two-tiered system of assigning risk weightings to these asset types. The rule would assign a 50% weighting for 1st lien real estate and a 100% weighting for junior real estate loans where the assets remain below 35% and 20%, respectively. We feel that the 50% and 100% weightings are fine. Our issue is that the weightings increase to 75% for 1st liens and 150% for junior liens once the concentration increases to 35% and to 20%, respectively. There are many credit unions that specialize in real estate lending and have higher concentration of mortgage loans. Other credit unions do not have as many resources but have a lessor concentration in mortgage loans. We feel the loans funded by a credit with more resources, even at higher concentration levels, are less risky. We do not feel that concentration factors alone are a good indicator of risk in the portfolio. The rule doesn't consider loan to values within a 1st mortgage portfolio

SOUND CREDIT UNION

which have a lot to do with risk should home values decrease in the market. We feel the NCUA should consider loan-to-value when determining risk weightings rather than merely concentration limits.

We also are concerned with the risk weighting for Investment in CUSOs. A risk weighting of 250% appears to be excessive since any potential loss in our investment in a CUSO would be limited to the actual dollar amount invested. It appears that a 100% risk weighting is sufficient. This would also encourage credit unions to utilize CUSOs in order to share risks, share costs, and improve efficiencies and services to our members.

Allowance for Loan Loss - We agree that the full amount accrued for potential loan losses should be included in the numerator as “Capital”. In reality, these are reserves set aside for future losses.

Complex Credit Union Definition – It appears that a credit union’s asset size is used to determine whether or not a credit union is “complex”. We applaud the increase from $50 million to $100 million in assets for compliance with the proposed rule, however, we feel that other criteria should be used to determine whether a credit union is “complex” or not. These criteria could include the types of deposit accounts offered, the services offered, the types of loans such as business or mortgage loans, and the types of investments purchased by the credit union. The assumption that a $1 billion credit union is more “complex” than a $500 million credit union may not always be true. Management’s decisions to implement certain products and services, and not necessarily the asset size, will dictate the complexity of a credit union.

Capital Adequacy – We strongly oppose the capital adequacy plan requirements of the newly proposed rule. Each credit union has different need for capital based on the strategic goals, risk assessment performed and its tolerance for risk. Credit union management and boards are in the best position to determine the long-term capital needs of a credit union. Capital adequacy should not be left in the hands of individual examiners who differ in opinion from year to year in terms of what “an appropriate level of capital” is required for each credit union. This could lead to higher and higher levels of required capital by examiners when all other requirements of the proposed rule are met. This does not add value to credit unions, the industry, and to our member-owners.

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Supplemental Capital – We support the inclusion of supplemental capital by credit unions when calculating the risk-based capital ratio. Recently at the Governmental Affairs Conference, I heard Chairwoman Matz indicate that she favors including supplemental capital in the risk-based capital calculation. We encourage the NCUA to follow Chair Matz's lead and include supplemental capital into the numerator of the calculation.

Thank you once again for your efforts to work with credit unions to develop a reasonable and workable rule that will allow us to better serve our members in a safe and sound manner. If you have questions, I can be reached at 253.597.7602, or toll-free at 800.562.8130, ext. 7602. My email address is dclark@soundcu.com.

Sincerely,

DL Clark Jr.

Don L. Clark Jr.
President
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Tacoma, WA